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FISCAL IMPACT REPORT

ORIGINAL DATE 2/6/06

SPONSOR Altamirano LAST UPDATED _____ HB _____

SHORT TITLE Higher Education Capital Outlay Act SB 220

ANALYST Kehoe

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|-------------|-------------------------|------------------|
| FY06 | FY07 | | |
| | \$100,000.0 | Recurring | General Fund |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|-------------|------|-------------------------|----------------------------------|
| FY06 | FY07 | FY08 | | |
| | \$100,000.0 | | Recurring | Higher Education Capital Fund |
| | | | | |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
 Higher Education Department (HED)
 Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 220 enacts the Higher Education Capital Outlay Act, creates the Higher Education Capital Council and higher education capital outlay fund, and makes an appropriation.

FISCAL IMPLICATIONS

Senate Bill 220 appropriates \$100 million from the general fund to the proposed higher education capital outlay fund for expenditure in fiscal year 2007 and subsequent fiscal years. Money in the fund, including earned income, will be credited to the fund and shall not be transferred or reverted to any other fund at the end of a fiscal year. The money in the fund is appropriated to the newly created Higher Education Capital Council for the purpose of making grants to institutions for capital outlay projects approved by the Council.

The proposed 2006 General Appropriation Act, as passed out of the House of Representatives, contains \$60 million intended for “deferred maintenance” for institutions of higher education facilities.

SIGNIFICANT ISSUES

Senate Bill 220 creates a Higher Education Capital Council similar to the Public School Capital Outlay Task Force. The Council shall consist of the secretary of the Department of Finance and Administration, the governor, the director of the Legislative Finance Committee, the director of the Legislative Council Service, the secretary of Higher Education Department, or their designees; and a representative of a two-year and four-year institution, appointed by the governor.

The Council is required to investigate all applications for assistance from the fund and certify the approved applications for allocations from the fund.

OTHER SUBSTANTIVE ISSUES

One of New Mexico’s most significant capital obligations is its investment in the campuses of higher education and special schools. The fixed assets of land, buildings, infrastructure, and equipment at the campuses within the public post secondary education system are instrumental to the institutions of higher education fulfilling their mission to deliver education, training, and other services to its students and communities.

The Legislature has authorized \$316.5 million for post-secondary and special school facilities between 1998 and 2005. At least 70 percent of the funding has been for infrastructure and renovation, American with Disability Act improvements, information technology and equipment, and at least 30 percent for new construction.

The Legislature authorizes the funding of larger, more costly capital improvements for higher education projects from general obligation bond capacity available only in even-years. Local funds, which are usually local general obligation bonds issued by the two-year colleges, have contributed significantly towards capital needs at their campuses to pay for campus improvements such as childcare centers, student activity buildings and student recreational facilities. University system revenue bonds are generally used to pay for projects such as dormitories, student union buildings, stadiums, parking garages, UNM Hospital, other revenue-generating facilities or for capital improvements.

Each institution’s operating budget includes an annual allotment for building renewal and replacement (BR&R). BR&R is determined by a formula based upon square footage, age, and past improvements made to the instructional and administrative buildings on the campus. National

guidelines and standards recommend institutions set aside from two to three percent of the replacement cost of buildings for determining the cost for keeping facilities in good operating condition which would require \$36 million annually for the state's facilities. However, the current BR&R formula only generates 40 percent of the recommended funding.

The buildings and infrastructure at the state's campuses require a substantial investment for "deferred maintenance and renewal," a term that refers to the slow deterioration of facilities along with a backlog of necessary repairs and maintenance. Most campuses require extensive infrastructure replacements or improvements for heating and cooling, water and sewer improvements, metering and energy management systems, electrical distribution systems, fiber optic cabling and other communications systems, and other improvements to eliminate fire and safety code deficiencies.

The backlog of repairs and renovations along with the lack of adequate funding has resulted in the minimum performance of repairs and maintenance necessary to keep buildings at a "safe and healthy" level for students and staff. More and more campuses are suffering from frequent utility outages, unusable classrooms, a loss of students, and discouraged faculty members.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill duplicates Senate Bill 262 in its entirety.

LMK/nt